

ID: CCA-110211-11

Number: **201203017**

Office:

Release Date: 1/20/2012

UILC: 453.16-00

From:

Sent: Wednesday, November 02, 2011 3:20:12 PM

To:

Cc:

Subject: Basis in installment sale contract /

To summarize our phone conversations yesterday, Tuesday, November 1, 2011, the National Office is suggesting that a more direct approach in this case may be to follow section 453(c) and the underlying regulations and examples. Section 453(c) defines the term "installment method" and provides that income recognition is based on a proportion of the payments received which the gross profit bears to the contract price. Section 453(c) is the statutory authority for the "gross profits ratio" that is defined under section 15A.453-1(b)(2)(i). Section 15A.453-1(b)(2)(v) defines "gross profit" as the selling price less the adjusted basis as defined in section 1011. See Example (1) in section 15A.453-1(b)(5). The gross profit ratio incorporates the taxpayer's adjusted basis in the installment note for purposes of gain recognition attributable to the sale. This code section and underlying regulation must be used by the taxpayer in our case to determine gain attributable to the sale.

Although we have no objection to including the analogy under section 453B, which deals with the disposition of the installment note, we think that section 453(c) and the underlying regulations and examples offer a more direct approach.

Thanks,